

APPENDIX D: PUNCHBOARDS/PULLTABS AND RAFFLES REGULATORY HISTORY AND TIMELINES

The regulatory histories of Punchboards/Pulltabs (PB/PT) and Raffles are outlined here in narrative and timeline form.

PUNCHBOARD/PULLTAB (PB/PT) REGULATORY HISTORY AND NARRATIVE

Punchboards and pulltabs (PB/PT) are significantly different from bingo and raffles in a number of ways. Yet charitable and non-profit PB/PT generated more net income in CY 2003 (\$8,043,236) than Bingo did (\$6,069,935). In fact, charitable and nonprofit PB/PT gross receipts were nearly three quarters of bingo gross receipts in 2003.

Regulation of PB/PT has had a somewhat different focus, because approximately 75% of PB/PT activity takes place in commercial environments and serves as a commercial stimulant. The Gambling Commission noted in its 1973 Annual Report that it was moving slowly and deliberately in its regulation of PB/PT (as opposed to the immediate licensing of bingo and raffle activities) due to the Legislature's "much more general authorization for the use of punchboards and pulltabs." The Commission felt that there could be more potential problem areas with PB and PT than with bingo and raffles.

In doing this study, it was initially assumed that expenses are minimal for PB and PT, beyond the prizes paid out and the cost of the games, because the activity associated with selling PB/PT does not require much staffing or much space. This is unlike bingo, where a significant investment of staff/volunteer effort and large facility costs will drive expenses up. However, in looking more closely at the expense numbers, the expenses attributed to (or more accurately, allocated to) PB/PT were as high as those associated with bingo. In a number of cases, PB/PT expenses were higher than those for bingo. This raises the question of how licensees allocate costs within their gambling operations and whether the true costs of each gambling activity are identified.

A number of local jurisdictions (including Seattle, Redmond, Mercer Island and several smaller cities/towns) prohibit PB/PT under the local option language of the gambling statute, so the market is slightly constrained by these prohibitions.

Statutory issues. The RCW sets the **maximum price for a "chance"** for PB/PT. The initial legislation, HB 711, set the price of a chance at 25¢. This price remained in place until 1984, when the Legislature increased it to 50¢. In 1997, the price of a chance was increased again, this time to \$1.00. It is not clear what precipitated the effort to make the increase in 1984, as PB/PT gross receipts were growing rapidly at that time.

However, the impetus for the 1997 increase may have been a decline in charitable/nonprofit PB/PT gross receipts that had been occurring since 1994. The 1997 change did not, however, produce a turnaround in gross receipts; they continued to decline through 2003. The drop from 1993 to 2003 was from \$116,811,028 to \$88,247,180, a 25% drop.

The other major statutory issues related to PB/PT are around **license fees and taxes**. The initial license fee scheme focused on individual premises, regardless of volume of PB/PT business. Unlike bingo and raffles, initially PB/PT operators were not sorted into classes of licenses. The documents available for this report did not provide enough information to specify when the Commission did move to a class structure for PB/PT. In 1986, the Commission instituted a modified license fee schedule, creating a new class for "beginner" licensees who wanted to see if PB/PT would be profitable for them, and two new classes at the high end for those whose gross receipts were very high. In all the Commission increased the classes from six to eleven.

HB 711, the authorizing legislation, set up the taxing scheme for PB/PT devices based on gross income of the business where the PB/PT devices were displayed. In 1976, the Legislature approved a special tax on coin-operated gaming devices that was tied to the federal tax on such devices. This tax quickly became a major source of revenue for the Commission. In the early 1980s when the federal legislation expired, the PT device tax was repealed, and the Commission's budget was drastically affected.

The ultimate resolution came with SB 4286, in which the Legislature repealed the PB/PT fee-per-machine license fee, and replaced it with permission for the Commission to enact via rule a variable fee structure based on sales volume.

Regulatory issues. The major regulatory issues for PB/PT appear to be ongoing regulation of manufacturers and distributors, prize limits, the structure of the games, and the nature of the devices that dispense PT's.

Because the illegal or fraudulent activity related to PB/PT can occur in how the devices are set up initially, the Commission determined early on (1974) that it would need to license manufacturers and distributors and their representatives. The licensing authority was provided to the Commission by the Legislature in September 1973 and has been in place since then.

The initial legislation also required that any prize won over \$5.00 had to be recorded and available for public inspection for at least 90 days thereafter. The \$5.00 recorded prize amount was increased to \$20.00 by the Legislature in 1984 and in 1998, the Legislature gave the Commission the responsibility to set the recorded prize figure.

From the documents available for this study, it appears that the Legislature never set a prize limit for PB/PT, but rather left that task to the Commission. The Commission has increased the prize limits quite steadily since 1984.

In 1996, the Commission approved a number of changes to the structure/nature of PT games, including progressive jackpots, bonus or "step-up" games, and bonus PT with carry-over jackpots. Given that these changes occurred after two years of declining gross receipts, it appears that the goal was to offer a wider variety of ways to play PT's and thus increase the attractiveness of PT's to the gambling public.

The other key area of regulation appears to be around the actual devices that dispense the pulltabs. In 1974, the Commission adopted rules that required that all PT devices comply with Commission rules. In 1975, the Commission adopted a series of rules requiring Commission approval of dispensers prior to sale, packaging, and assembly. The 1976 Commission report describes this regulatory work as "adopted rule changing the minimum standards for pull tab dispensing devices and that required approval by the Commission of pull tab dispensing devices."

It appears that the Commission updated the PT/PB regulations in the mid-1980s. The Commission required bar-coded ID stamps for tracking the devices in 1986. For several years in the mid-1980s, the Commission considered proposals to allow electronic pulltabs and to allow continuous play marketing. In both cases, licensees had mixed reactions and some declined to participate in the tests that the Commission conducted

(or offered to conduct). In both cases, the tests that were carried out showed inconclusive results and the ideas were dropped.

There do not appear to have been any additional device-related rules since then.

STATUTORY AND REGULATORY TIMELINE: PUNCHBOARDS AND PULLTABS

YEAR	RCW	WAC	CONTEXT
1973	HB 711 authorizes PB/PT, sets 25¢ single chance limit; \$5.00 prize record requirement; allows tax on business gross income.	License fees set by single premises, no license classes by size. Manufacturers, distributors and their reps are to be licensed.	Authorizing legislation (PB/PT chance was in the taxation section due to specific taxation of businesses with PB/PT. Taxation was initially based on gross income of the business displaying the PB/PT. All prizes over \$5.00 required to be recorded and available to the public for 90 days. Local jurisdictions have the option to prohibit PB/PT and some did.
1973	HB 487 added authority to license manufacturers and distributors		Commission requested this, noting that control of the supply chain would be key to protecting the public.
1974	HB 473 set max tax of PB/PT to not exceed 5% of gross receipts specifically from PB/PT.		Corrected initial tax requirement applying to the business's entire gross income.
1975		Rules change for minimum standards for PT dispensing devices, require approval of PT dispensing devices.	Change required that player be able to see the number of chances available and remaining. Rules protected the players and helped them make more informed decisions.
1981	ESSB 3307 re-established the tax on coin-operated gambling devices (PT)		Bill requested by Commission to retain revenue after change in federal law regarding such taxes.
1983			First increase in charge for single chance proposed—from 25¢ to \$1.00—failed.
1984	SB 4286 repealed tax on coin-operated gambling devices, shifted to a volume-based tax		Effort was to make the tax amount appropriate for the volume of business being done. Effort to increase single chance price failed again.

YEAR	RCW	WAC	CONTEXT
1984	SB 3066 increased single chance from 25¢ to 50¢, required recording of winners over \$20.		
1985		Prize limits increased from \$100 to \$200 in cash, \$300 in merchandise. Modified PB/PT fee schedule, sets up new classes (one for very small groups just starting, and higher-end classes for the largest games). Classes expand from 6 to 11.	Electronic PB and continuous play marketing systems considered and tested; results inconclusive; licensees had mixed reactions. License fee process revised to allow payment during year rather than one annual lump sum. 1985 WSGC Annual Report showed C/NP PB/PT separately for the first time.
1987			Commission noted in its Annual Report that PB are steadily declining but PT are up.
1992			PB increased slightly in 1992.
1994		Prizes increased again, to \$500 for both cash or merchandise.	
1995			Both PB and PT showed no growth in 1995.
1996		Change in the flare deletion requirement probably due to admin. cost. Change in game structure.	Progressive jackpots, step-up games, bonus PT added. Change in flare deletion requirement makes it less cumbersome for licensees.

YEAR	RCW	WAC	CONTEXT
1997	SB 5034 increases single chance to \$1.00; maximum tax lowered. Commission authorized to set prize recording limits.		Likely in response to flat receipts.
1998		Maximum prize increased to \$750	New video training for PB/PT licensees.
2000		C/NP PB/PT operators can sell to commercial card room patrons adjacent to the C/NP location.	PB/PT gross receipts decline.
2001-03			PB/PT gross receipts decline.

RAFFLES: REGULATORY HISTORY AND NARRATIVE

Raffles do not draw a great deal of attention in the overall portfolio of charitable and nonprofit gambling in Washington State. In some of the Commission's annual reports, the statistics for raffles are combined into an "Other" category and the details are lost. Raffles generate modest amounts of money per licensee, especially relative to the other activities. However, over time, Raffles have become a far larger part of C/NP gambling.

However, raffles do have several distinguishing features:

- Net income (gross receipts less prizes and expenses) from Raffles in CY 2003 totaled \$3,242,590 , which is 48% of Bingo's net income and 40% of C/NP punchboard and pulltab net income. In terms of dollars available for the C/NP purpose, Raffles are not so small any more.
- Raffles have been remarkably persistent as a form of fundraising for charitable and nonprofit organizations, with licensees numbering in the 370-520 range throughout the thirty years of legalized gambling.
- Raffles are the only C/NP activity where the number of licensees is steadily rising (from 486 in 1993 to 705 in 2003, a 45% increase).
- The percentage of gross receipts from raffles that is applied to the charitable or nonprofit purpose consistently hovers around 50%, which is a substantially higher percentage than any other form of charitable and nonprofit gambling returns.
- Gross receipts show steady growth, from \$700,000 in 1975 to \$7.1 million in 2003.

In many ways, raffles reflect the initial purpose of the Legislature in authorizing C/NP gambling—to allow small-scale "good cause" gambling. Raffles are limited in time and scope, they can be run by volunteers, they tend to focus on members and their friends, and they return a significant portion of their proceeds to the charitable/nonprofit purpose. The smallest raffles are no longer licensed at all.

The factors that have driven growth in proceeds from raffles include:

- Statutory actions to **increase the maximum single raffle ticket price** (from \$1.00 to \$5.00 in 1984, and from \$5.00 to \$25.00 in 1995). In both cases, there are immediate, double-digit increases in the growth of gross receipts, prizes paid and net receipts. In both cases, there had been an absolute decline in gross receipts in the year preceding the increase in ticket price.
- Regulatory actions in 1989 to allow **alternate forms of drawings** (the so-called "duck races"), thereby creating new ways to engage people in purchasing raffle chances. In 1991, there was a double-digit increase in gross and net receipts, probably as licensees implemented new drawings.

There was an apparent additional spike in growth in 2003, but the growth is in net receipts, not gross receipts. The prizes paid amount actually declines, thus driving the increase in net receipts. It is not clear from the documents available what the possible causes of this growth are.

The average net income per licensee is small: averaging in the \$5000 to \$6000 range for the past ten years. The average is low because most (88%) of licensees are in the Small Pool—up to \$25,000 in gross receipts. However the larger Raffle licensees generated average net income of \$19,500 in the Medium Pool, \$22,000 in the Large Pool and \$68,000 in the Extra-Large Pool.

RAFFLES—STATUTORY AND REGULATORY TIMELINE

YEAR	RCW	WAC	COMMENTS
1973	HB 711 authorizes raffles for charitable and nonprofit organizations. Sets maximum raffle ticket price at \$1.00. Raffles must be run by a member of the C/NP organization.		217 licenses issued in first two months. Raffles identified by the Commission as providing the “least enforcement problems.”
1974		Commission sets licensing classes A-F.	Breaks out licensees by size of gross/net receipts.
1976		Commission eliminates license requirement for Class A and B raffles.	Frees up raffles under \$5000 gross receipts from licensure.
1980-83		Rules review results in reduced reporting requirements for all classes of raffle licensees. Introduces standard accounting system for raffles.	
1985	SB 3471/HB 402 increase maximum raffle ticket price from \$1.00 to \$5.00.		
1989		Commission allows alternative “drawing formats” (i.e., duck races).	Gross receipts, prizes paid, net income all increase between 1989 and 1991, then drop in 1992.

YEAR	RCW	WAC	COMMENTS
1995	Statutory increase in maximum raffle ticket price from \$5.00 to \$25.00.		
1996		Commission allows raffle income to be counted as part of bingo operation for co-licensees.	Attempt to improve cash position of bingo licensees who also did raffles.
1997		Commission allows supervised non-members to sell raffle tickets.	
1999	Tax on gross raffle receipts minus prizes reduced from 10% to 5%		.
2000			Raffle training now available on the Internet for convenience of prospective licensees
2000	Credit unions authorized to conduct unlicensed raffles under certain circumstances		